Testimony of Charles E.F. Millard, Director
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before the
Committee on Ways and Means
Subcommittee on Oversight
United States House of Representatives

Mr. Chairman, Ranking Member Ramstad, and Members of the Subcommittee: Good morning. I appreciate the opportunity to appear before the Subcommittee today and to discuss the state of the Pension Benefit Guaranty Corporation ("PBGC" or "Corporation").

The need for a pension safety net became starkly evident when, at the end of 1963, the Studebaker Corporation, then the nation's oldest major automobile manufacturer, closed down its U.S. operations and terminated its pension plan. About 4,000 workers age 40-59 lost the bulk of their pensions, receiving only fifteen cents for each dollar of their vested benefits. These individuals had an average age of 52. They had worked for the company an average of almost 23 years.

In 1974 Congress passed the Employee Retirement Income Security Act ("ERISA") which, among other pension protections, created the PBGC to insure pensions earned by American workers under private-sector defined benefit plans. Today PBGC insures almost 44 million workers, retirees, and beneficiaries in over 30,000 plans. When a plan terminates in an underfunded condition – because the employer responsible for the plan can no longer fund the promised benefits – the Corporation takes over the plan as trustee and pays benefits to the full extent permitted by law.

PBGC benefit payments are important, often crucial, to the retirement income security of retirees and workers in trusteed plans, many of whom worked decades for their promised benefits. At the end of fiscal year 2007, PBGC was paying benefits to 630,000 retirees and beneficiaries in terminated underfunded plans; another 534,000 participants in these plans will become eligible to start receiving benefits in the future.

Since Congress established the PBGC in 1974, the Corporation has faced many challenges, including economic contraction in certain industries that traditionally have provided defined benefit pensions; inadequate minimum contribution requirements which too often have resulted in unfunded promises at plan termination; premiums that often have been inadequate to meet the financial demands placed on the PBGC program; and employer shifts from defined benefit plans to defined contribution plans, which are not insured by PBGC.

Because of these challenges, PBGC has been in a deficit position for most of its existence. At the end of fiscal year 2007, PBGC had assets of $68.4 billion to cover liabilities of $82.5 billion, resulting in an accumulated deficit of $14.1 billion.[1] Fortunately, the current

[1] There was a $13.1 billion deficit in the single-employer program and a $1 billion deficit in the multiemployer program at the end of FY 2007.

deficit does not pose an imminent threat; PBGC has sufficient funds to meet its obligations for a number of years. Nevertheless, over the long term, the deficit must be addressed.

Defined Benefit Pensions

Private-sector defined benefit plans cover 43.8 million American workers, retirees, and beneficiaries. In a defined benefit plan, retirement benefits typically are based on a worker's earnings and years of service with the employer. Defined benefit plans insulate retirees from investment and mortality risk and are intended to be a source of stable retirement income.

Defined benefit plans are funded by employer contributions. The law prescribes minimum contribution requirements, which Congress has tightened over the years to improve plan funding. Benefits under a defined benefit plan are secure if the employer is financially healthy and can afford to make the required contributions. When an employer can no longer afford a plan, the plan is terminated and PBGC guarantees benefits, subject to legal limitations. Amounts above guarantee limits can be paid only if plan assets or recoveries from employers are sufficient to allocate to these benefits.

Thus retirement income security for the workers and retirees covered by private defined benefit plans depends on a combination of sound plan funding and a strong insurance program.

Governance and Financial Structure

PBGC is a wholly-owned federal government corporation with a three-member Board of Directors—the Secretary of Labor, who is the Chair, and the Secretaries of Commerce and Treasury. Until August 2006, ERISA provided that the Corporation was to be administered by the Chairman of the Board in accordance with policies established by the Board, and Board Chairmen appointed non-statutory executive directors who reported to the Chairman. The Pension Protection Act of 2006 ("PPA 2006") established a Senate-confirmed Director to administer the Corporation in accordance with policies established by the Board of Directors.[2] PBGC also has an Advisory Committee appointed by the President.

In May of this year PBGC's board revised the Corporation's bylaws to address concerns expressed by GAO in a July 2007 report. The new bylaws more clearly define the roles and responsibilities of PBGC's board members, representatives, director, and senior management.

PBGC operates two insurance programs, which are financially separate. The Single-Employer program covers 33.8 million workers, retirees, and beneficiaries in about 28,900 single-employer plans. The smaller Multiemployer program – which covers collectively bargained plans that are maintained by two or more unrelated employers – protects 10.0 million workers, retirees, and beneficiaries in about 1,500 multiemployer plans.

[2] ERISA section 4002(a) as amended.

Although PBGC is a government corporation, it receives no funds from general tax revenues and by law its obligations are not backed by the full faith and credit of the U.S. government. Operations are financed by insurance premiums, assets from pension plans trusteed by PBGC, investment income, and recoveries from the companies formerly responsible for underfunded trusteed plans (generally only pennies on the dollar).

PBGC's statutorily established revolving funds receive premiums, which are invested in U.S. Treasury obligations. PBGC also has trust funds, which hold the assets of terminated underfunded plans that PBGC has taken over as trustee. The Government Accountability Office has determined that the trust funds are private, nongovernmental moneys. The trust funds can be invested in more varied holdings consistent with sound fiduciary principles.

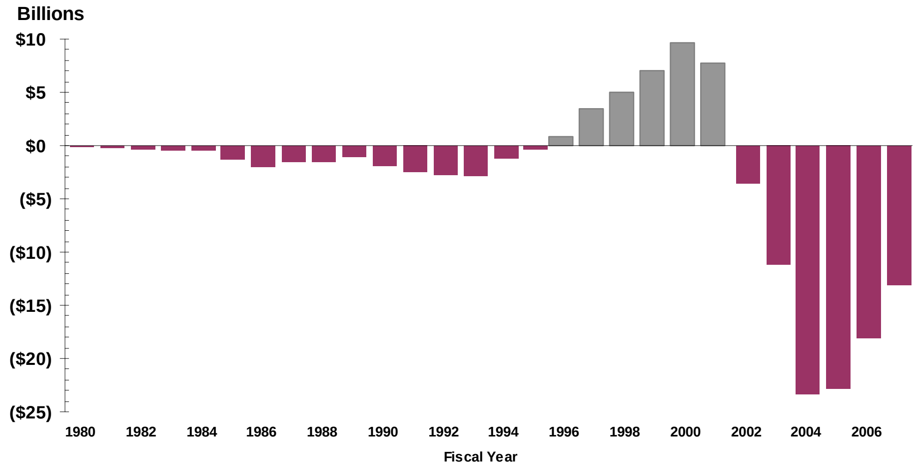
PBGC pays participant benefits from its revolving funds. PBGC revolving funds are then partially reimbursed by the trust fund. This partial reimbursement results in what is referred to as "proportional funding" of benefits; that is, funded benefits are paid with trust fund assets and unfunded guaranteed benefits are paid with revolving fund assets.

PBGC's administrative expenses are also provided from the revolving fund (also subsequently reimbursed from its trust funds) and are subject to an explicit limitation on obligations through the appropriations process. PBGC's appropriations language provides certain exceptions from this limitation that allow the agency to obtain additional resources in the event of additional plan terminations. As a result of this format, PBGC neither requests nor receives any taxpayer support.

Deficit and Claims History

PBGC's operating results are subject to significant fluctuation from year to year, depending on the severity of losses from plan terminations, changes in the interest factors used to discount future benefit payments, investment performance, general economic conditions, and other factors such as changes in law. Unfortunately, as the chart below shows, the Corporation has been in a deficit position for most of its existence.

PBGC Net Position
Single-Employer Program
FY 1980 – FY 2007



Data does not include restored LTV plans in 1986

The $13.1 billion deficit in the single-employer program at the end of FY 2007 is the difference between assets of $67.2 billion and liabilities of $80.4 billion. Liabilities include claims from actual terminations and probable terminations. Probable terminations are claims that are expected to occur and are required to be booked as liabilities under generally accepted accounting standards. Notwithstanding the $13.1 billion deficit in the single-employer program, I want to reiterate that the PBGC has sufficient assets on hand to continue paying benefits for a number of years. However, with $80 billion in liabilities – which includes actual and probable terminations – and only $67 billion in assets as of the end of the past fiscal year, the single-employer program lacks the resources to fully satisfy its benefit obligations.

The large accumulated deficit that persists in the single-employer program is due to an unprecedented wave of pension plan terminations with substantial levels of underfunding in recent years. The program posted its largest year-end shortfall in the agency's 34-year history in FY 2004, when losses from completed and probable pension plan terminations totaled $14.7 billion for the year, and the program ended the year with an accumulated deficit of $23.3 billion.

The table below shows the ten largest plan termination losses in PBGC's history. Nine of the ten have come since 2001. The top ten claims are primarily from firms in the steel and airlines industries.

Top 10 Firms Presenting Claims (1975-2007)
PBGC Single-Employer Program[1]

	Top 10 Firms	Number of Plans	Fiscal Year(s) of Plan Terminations	Claims *(by firm)*	Vested Participants	Percent of Total Claims *(1975-2007)*
1.	United Airlines	4	2005	$7,503,711,171	122,541	21.5%
2.	Bethlehem Steel	1	2003	3,654,380,116	91,312	10.5%
3.	US Airways	4	2003, 2005	2,684,542,754	57,002	7.7%
4.	LTV Steel*	6	2002, 2003, 2004	2,134,985,884	83,094	6.1%
5.	Delta Air Lines	1	2006	1,740,482,711	13,028	5.0%
6.	National Steel	7	2003	1,275,628,286	33,737	3.7%
7.	Pan American Air	3	1991, 1992	841,082,434	31,999	2.4%
8.	Trans World Airlines	2	2001	668,377,106	32,275	1.9%
9.	Weirton Steel	1	2004	640,480,970	9,410	1.8%
10.	Kaiser Aluminum	7	2004, 2007	602,132,764	18,402	1.7%
	Top 10 Total	36		$21,745,804,196	492,800	62.2%
	All Other Total	3,747		13,193,241,357	1,087,787	37.8%
	TOTAL	3,783		$34,939,045,553	1,508,587	100.0%

[1] Data are preliminary.

Total claims for FY 1975-2007 also are concentrated in those industries, with about 41 percent from the airlines industry, about 36 percent from steel and other metals, about 13 percent from other manufacturing industries, and about 11 percent from all other industries.

PBGC Claims by Industry (FY 1975-2007)
Single-Employer Program[1]

Industry	Total Claims	
AGRICULTURE, MINING, AND CONSTRUCTION	$613,939,852	1.8%
MANUFACTURING	17,308,736,681	49.5%
Apparel and Textile Mill Products	1,076,787,054	3.1%
Fabricated Metal Products	1,214,284,207	3.5%
Food and Tobacco Products	303,415,234	0.9%
Machinery Manufacturing	1,158,396,474	3.3%
Primary Metals	11,499,713,070	32.9%
Rubber and Miscellaneous Plastics	359,864,357	1.0%
Other Manufacturing	1,696,276,286	4.9%
TRANSPORTATION AND PUBLIC UTILITIES	14,582,003,027	41.7%
Air Transportation	14,205,842,014	40.7%
Other Transportation and Utilities	376,161,013	1.1%
INFORMATION	50,012,420	0.1%
WHOLESALE TRADE	429,453,930	1.2%
RETAIL TRADE	427,810,561	1.2%
FINANCE, INSURANCE, AND REAL ESTATE	793,408,855	2.3%
SERVICES	733,680,227	2.1%
TOTAL	$34,939,045,553	100.0%

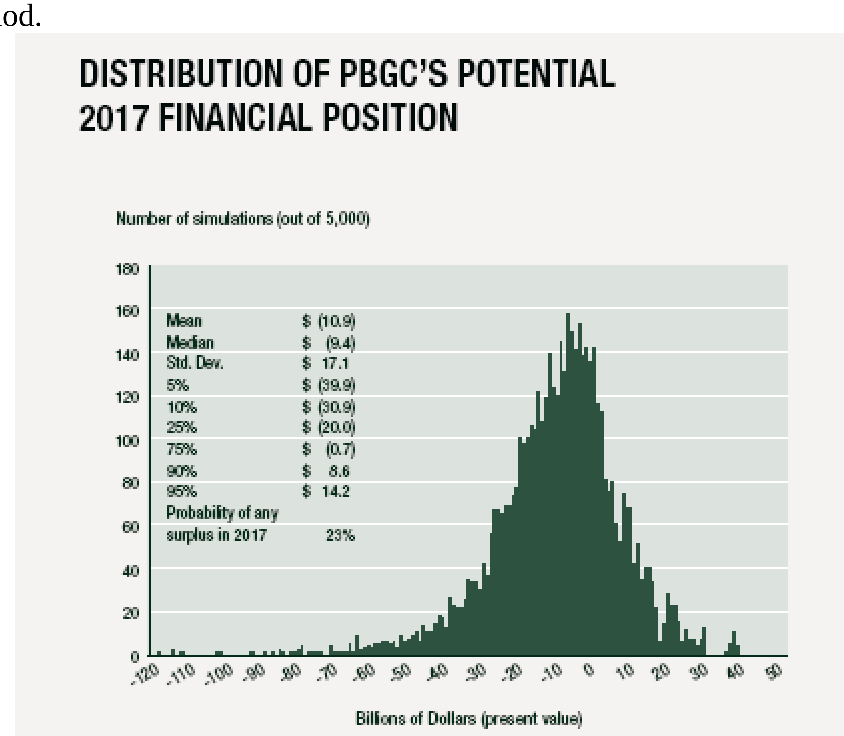
[1] Data are preliminary.

Projections

ERISA requires that the PBGC annually provide an actuarial evaluation of its expected operations and financial status over the next five years. PBGC has historically made a 10-year forecast for the single-employer program. The forecast is made using a stochastic model—the Pension Insurance Modeling System ("PIMS")—to evaluate its exposure and expected claims. PIMS portrays future underfunding under current funding rules as a function of a variety of economic parameters. The model recognizes that all companies have some chance of bankruptcy and that these probabilities can change significantly over time. The model also recognizes the uncertainty in key economic parameters (particularly interest rates and stock returns).

The model simulates the flows of claims that could develop under thousands of combinations of economic parameters and bankruptcy rates. PIMS is not a predictive model and it does not attempt to anticipate behavioral responses by a company to changed circumstances.[3] PIMS starts with data on the PBGC's single-employer net position (a $13.1 billion deficit in the case of FY 2007) and data on the funded status of approximately 460 plans that are weighted to represent the universe of PBGC-covered plans. The model produces results under 5,000 different simulations. The probability of any particular outcome is determined by dividing the number of simulations with that outcome by 5,000.

Even with the strong economy and improved deficit in FY 2007, and the legislated premium increases and reforms, the model showed a median and mean deficit of about $10 billion at the end of the 10-year period. Even more significantly, the model indicated that there was only a 23 percent chance that PBGC could reach full funding at the end of that 10-year period.



3 Additional information on PIMS and the assumptions used in the model are available in PBGC's Pension Insurance Data Book 1998, pages 10-17, which also can be viewed on the PBGC's Web site at *www.pbgc.gov/publications/databook/databk98.pdf.*

Underfunding Exposure

Much of the projected deficit in the PIMS model is reflective of the underfunding in covered defined benefit plans. Most companies that sponsor defined benefit plans are financially healthy and should be capable of meeting their pension obligations to their workers. But the amount of underfunding in pension plans sponsored by financially weaker employers is very substantial. Pension underfunding in non-investment grade companies is classified under generally accepted accounting standards as PBGC's "reasonably possible" of termination and is required to be reported in the notes to PBGC's financial statements.

PBGC's reasonably possible exposure by industry for FY 2006 and FY 2007 is shown in the table below.

Reasonable Possible Exposure (Dollars in billions)		
Principal Industry Categories	**FY 2007**	**FY 2006**
Manufacturing	$31.4	$37.6
Transportation, Communication & Utilities	19.5	20.5
Services & Other	6.9	7.0
Wholesale and Retail Trade	5.8	6.1
Agricultural, Mining and Construction	1.0	1.2
Finance, Insurance and Real Estate	1.2	0.9
Total*	**$65.7**	**$73.3**

* Numbers may not add due to rounding.

In 2007, as in previous years, the PBGC engaged in a number of activities to safeguard the pension insurance system, including plan risk assessments, plan monitoring, and negotiation and litigation, to limit risk exposure and losses to pension plan participants and the PBGC. PBGC monitored some 2,200 controlled groups, some 3,600 plans, and almost 500 bankruptcy cases. The PBGC takes an active role in corporate bankruptcy proceedings on behalf of workers whose pension plans are not fully funded. The PBGC encourages plan sponsors to continue rather than terminate their pension plans. When a plan is terminated, the PBGC pursues recoveries of the underfunding from the plan sponsor and other related companies that are liable.

The steps PBGC has taken to protect pensions that could be adversely affected by corporate transactions or bankruptcy have made a real difference to plan participants and PBGC. And the companies that cooperated in making good on their pension promises have reason to be proud.

- Since 2005, the PBGC has worked with 13 auto parts companies that have emerged successfully from Chapter 11 protection without terminating their pension plans. For example, this year, Dana Corporation (53,000 participants), and Dura Automotive (4,300 participants) made contributions required by ERISA during bankruptcy and kept their plans intact. Other examples in prior years are Federal Mogul and Tower Automotive.

- Last spring the PBGC initiated discussions with Daimler and Cerberus that led to additional protections for Chrysler's pension plans (259,500 participants). The plans received $200 million in contributions beyond what is required by ERISA, and Daimler will provide a $1 billion guarantee for up to five years if the plans terminate.

- Delphi's bankruptcy proceedings remain ongoing, and PBGC is continuing its efforts to protect Delphi's pension plans (86,500 participants) and achieve the goal of a successful reorganization. On September 12 Delphi announced an agreement with General Motors under which Delphi will transfer $3.4 billion of net pension liabilities from Delphi's hourly pension plan to GM's hourly pension plan. The agreement is subject to bankruptcy court approval. The bankruptcy court may hold a hearing this week.

As the insurer of America's defined benefit pension plans, the PBGC will continue to negotiate protection for workers and retirees in transactions like those described above. These safeguarding activities provide significant protection to the defined benefit insurance system and all its stakeholders.

2006 Pension Reforms

In 2005, the Administration proposed a comprehensive package of pension reforms to shore up the PBGC and strengthen funding in ongoing defined benefit plans. During 2006, legislation incorporating some of these reforms was signed into law: the Deficit Reduction Act of 2005 ("DRA 2005"), enacted on February 8, 2006, and the Pension Protection Act of 2006, enacted August 17, 2006.

Premiums

The provisions of the 2006 legislation that have the most immediate effect on PBGC are the premium provisions. The new law increased both the single-employer and multiemployer flat-rate premiums.

Until the enactment of DRA 2005, the flat-rate premium had remained unchanged for single-employer plans since 1991 and for multiemployer plans since 1989. DRA 2005 changed the per-participant flat-rate premium for plan years beginning in 2006 to $30 (from $19) for single-employer plans and to $8 (from $2.60) for multiemployer plans, and provides for inflation adjustments to the flat rates for future years. The inflation-adjusted per-participant flat-rate premium for 2008 is $33 for single-employer plans and $9 for multiemployer plans.

PPA 2006 kept the variable-rate premium paid by single-employer plans at $9 per each $1,000 of unfunded vested benefits and conformed the measurement of underfunding to the PPA changes to the plan funding rules. PPA 2006 also eliminated the full-funding limit exemption from the variable-rate premium, which was a loophole under prior law.

The President's FY 2009 budget again called upon Congress to grant PBGC's Board of Directors the ability to adjust premiums in order to eliminate PBGC's $14 billion deficit over a reasonable period of time and better safeguard workers' benefits. Moreover, under current law, PBGC is required to charge the same premiums regardless of the financial health of the plan's sponsor. Normally, insurance is provided by institutions that are able to underwrite risk, and PBGC should be permitted to assess its premiums in this way. Some level of risk-based premium-setting authority would allow the PBGC to quantify and be better prepared to confront the risks it faces.

DRA 2005 created a new ''termination premium'' that is payable in the event of certain distress and involuntary plan terminations of underfunded single-employer plans that occur after 2005.[4] The premium is $1,250 per participant per year and is payable for three years following the termination. For plans that terminate while the sponsor is in bankruptcy, payment is deferred until the sponsor emerges from bankruptcy. Flatware maker Oneida Ltd., which terminated an underfunded plan while in a chapter 11 reorganization proceeding, asserts that all of its pension plan obligations, including the termination premium, were discharged in bankruptcy. The 2nd Circuit Court of Appeals has agreed to hear PBGC's argument that the Deficit Reduction Act of 2005 requires payment of the termination premium. The appeals court may take up the case by year end.

Funding

PPA 2006 contains funding reforms that first apply to contributions for plan years beginning in 2008. We look forward to these reforms taking hold but it is too early to tell what effect they will have on the funded status of plans that constitute reasonably possible terminations.

While generally trying to improve plan funding, Congress also provided funding relief to certain airlines, allowing them to defer the accelerated funding requirements. This funding relief resulted in certain large plans previously classified as probable terminations being changed to the reasonably possible classification in FY 2006. If PBGC's deficit were calculated without regard to PPA 2006 airline relief provisions, PBGC estimates that its net deficit for FY 2007 would have been approximately $8 billion higher (assuming 2006 underfunding levels for the specific airline plans remained constant).[5] The airline underfunding remains a potential claim against the insurance program that may be expected to grow over time.

Regulations

PPA 2006 and DRA 2005 changed premiums, guarantee rules, reporting and disclosure requirements, and PBGC's missing participants program. During FY 2007, the PBGC began developing and drafting the numerous rules that would amend its regulations to comply with the changes. In developing these regulations, the PBGC seeks to ease and simplify employer compliance whenever possible, taking into account the needs of small businesses. In line with these principles, the PBGC published two final rules implementing premium changes.[6] Together, these rules implemented the new termination premium and changes to the flat-rate and variable-rate premiums discussed above, and a new cap on the variable rate premium for plans of small employers. PBGC also published procedures

[4] PPA 2006 make changes to the termination premium rules of DRA permanent.
[5] *PBGC FY 2007 Annual Report*, page 17.
[6] Variable-Rate Premium, 73 Fed. Reg.15065 (Mar. 21, 2008); Flat Premium Rates, Variable-Rate Premium Cap, and Termination Premium, 72 Fed. Reg. 71222 (Dec. 17, 2007).

under the PPA provision allowing certain single-employer plans (generally union staff plans) to elect to be multiemployer plans.

In FY 2008, the PBGC published proposed rules on PPA changes to annual financial and actuarial information reporting under ERISA section 4010, multiemployer withdrawal liability, disclosure of termination information, and the guarantee snapshot date for plans that terminate while the sponsor is in bankruptcy.

In FY 2009 PBGC expects to publish proposed rules on other PPA provisions, including the expanded missing participants program.

Terminations

Distress and involuntary termination

Underfunded plans terminate in either a distress termination (initiated by the plan sponsor) or an involuntary termination (initiated by PBGC). In either case, with court approval, PBGC becomes trustee of the plan, taking over plan assets, liabilities, and records.

PBGC immediately notifies plan participants upon becoming trustee and begins gathering the information needed to determine the benefits to which participants are entitled under the plan and the information needed to compute amounts payable under ERISA. The amount to which participants are entitled is the amount guaranteed by the insurance program, plus any additional amounts that can be paid from allocated plan assets or recoveries from employers.

In order to avoid any interruption in benefit payments, PBGC continues payments to retirees while it is making these computations. As quickly as possible, PBGC adjusts benefits and begins paying "estimated benefits" until it can determine the exact amounts due under the law ("final benefits"). Because these early payments are based on estimates, participants may be paid more or less that they are allowed to receive by law. If a participant receives more than allowed by law, future benefits are reduced accordingly. To avoid financial hardship for participants, the reduction is no more than 10 percent of the final monthly benefit and no interest is charged. When repayment is complete, monthly payments increase to the full amount. If a participant or beneficiary dies during repayment, further repayment is waived. If a participant receives less than they are entitled to by law, PBGC pays the difference to the participant in a lump sum with interest.

PBGC works hard to communicate with participants, holding participant meetings, sending individualized letters, and newsletters. However, it is still difficult for a retiree to learn that a pension he has worked years to earn will not be paid in full because the employer has not fully funded what was promised and the amount promised exceeds the legal limits that PBGC can pay.

PBGC is striving to shorten the time it takes to make final benefit determinations and thereby minimize payments in excess of legal limits. We have made great improvements over the years, but there is room for more improvement. Similarly, we are working to improve communications to help manage participant expectations.

Standard termination

In order to terminate in a “standard termination,” the plan must pay all benefits promised, including non-vested benefits. The plan administrator must certify to PBGC that this requirement has been met. If the plan administrator is unable to locate a participant, provision must be made for payment of the benefit. Under the PBGC’s Missing Participants program, which was established by Congress about twelve years ago, the plan must send money to PBGC or purchase an annuity from an insurance company and provide PBGC information about the annuity purchase so that, if the individual is located, the pension can be paid.

Currently PBGC has $9.3 million in unclaimed benefits under the Missing Participants program and $195.3 million in unclaimed benefits for participants in PBGC-trusteed plans. PBGC conducts repeated searches for all individuals with unclaimed benefits and posts their names in a Pension Search Directory on the PBGC web site. As of mid FY 2007, PBGC had paid $137 million to individuals in the pension search program.

Missing Participants Program Expansion

PPA 2006 provides for expansion of the Missing Participants program to cover terminating private-sector defined contribution plans and terminating multiemployer plans. Under PPA 2006 the expanded program would be effective following issuance of final regulations. PBGC is currently developing proposed regulations for the expanded program.

New Investment Policy

PBGC has total assets of $68.4 billion, of which $55 billion are investible assets. How those funds are invested is a very significant factor in the ability of the Corporation to meet its long-term obligations to the people who look to us for payment of benefits.

PBGC’s investment policy was due for Board review in February 2008, so in mid-2007, the PBGC initiated an independent review of PBGC’s investment policy in light of PBGC’s financial condition and long-term financial needs. We hired an independent consultant that had never worked with PBGC before to conduct a comprehensive review of our long-term liabilities and our asset allocation. This process included the consideration of dozens of possible portfolios under thousands of possible scenarios. During the process, our consultant or PBGC officials met or consulted multiple times with the PBGC Advisory Committee and the PBGC Board Representatives.

After full consideration, PBGC’s Board of Directors unanimously adopted a new diversified investment policy on February 12, 2008.

Our consultants calculations concluded that the prior policy gave us only a 19% chance of getting out of our deficit in the next ten years, and that the new policy would give us a 57% chance of achieving that goal. The new policy is designed to take advantage of the PBGC’s long-term investment horizon, and will allocate 45 percent of Corporation assets to equity investments, 45 percent to fixed income, and 10 percent to alternative investments such as private equity. This strategy aims at generating better returns that provide a greater likelihood that the Corporation can meet its long-term obligations.

Evaluation Process

In the months leading up to the adoption of the new investment policy, the Corporation's independent consultant conducted a comprehensive review of the old investment policy and numerous alternative policies. The review included all aspects of PBGC's assets, liabilities, constraints, contingent liabilities, and premium structures, and evaluated PBGC's current and alternative investment policies over 5-, 10- and 20-year periods.

The process that the PBGC conducted to arrive at the conclusion to alter the Corporation's investment policy involved a thorough assessment of PBGC's long-term obligations to plan participants and beneficiaries, exhaustive debate and discussion among numerous constituents, and in-depth analysis by leading industry experts. At the inception of the process, the Corporation's long-term objective and guiding principles were agreed to and documented by several key constituents including Representatives of the Board. This was followed by a close examination of the characteristics of the Corporation's obligations, including duration and key risk factors. A thorough review of the capital market opportunities then explored a wide range of investment policy alternatives. The potential performance of these alternatives and the Corporation's obligations were analyzed in the context of 5,000 economic scenarios over 20-year periods for each portfolio considered. Results across the full range of scenarios were analyzed to identify both expected and worst case environments to gain a thorough understanding of the range of outcomes for the various policy alternatives. The new investment policy was determined to offer the most appropriate balance of liquidity, downside protection, and long-term return potential relative to the Corporation's obligations.

The consultant worked closely with various PBGC departments to understand the underlying nature of PBGC's current and contingent liabilities, cash flow requirements, investment time horizon and investable universe.

The consultant's approach fully considered the unique characteristics of PBGC's liabilities, including the particular risks associated with the contingent liabilities, which are the most significant and uncertain the PBGC faces. The consultant utilized PBGC's benefit payment liability distribution, and contingent liability and premium projections from the Corporation's Pension Insurance Modeling System (PIMS) model in order to develop a detailed projection of PBGC's contingent and trusteed liabilities and benefit payments. Furthermore, the PIMS model also includes projections of contingent liabilities, benefit payments and assets that utilize the consultant's capital market assumptions, including long-term inflation, real interest rates, and market returns. These assumptions (long-term return, risk and correlations for all asset classes) were used to run thousands of simulations quantifying their impact on PBGC's assets, liabilities, funded status, risk and return under a variety of economic and market conditions. The model calculated the range of possible outcomes for each portfolio measured against PBGC's known and contingent liabilities.

The new PBGC investment policy – 45 percent equity, 45 percent fixed income, and 10 percent private equity and other alternative investments – involves a measured diversification of the portfolio to generate higher returns over the PBGC's long-term investment horizon. This change better enables the Corporation to meet its long-term obligations.

Portfolio Rebalancing

The PBGC will seek to rebalance the investment portfolio at least semi-annually in order to keep its asset allocation consistent with this Investment Policy. The specific timing and size of the rebalancing process will depend upon the liquidity needs of the Corporation, the cost of the rebalancing, anticipated receipt of assets from newly trusteed plans and projected premiums.

Implementation

PBGC has developed a plan for gradual implementation of the new policy to prevent any disruptions in financial markets. The Board Representatives have been deeply involved in crafting the new investment policy and will continue to oversee its implementation. I have established a new Chief Investment Officer position responsible for putting the new investment policy into place and overseeing the Corporation's investment portfolio. The Chief Investment Officer will take the lead in forecasting changes in volume, fund mixes and scheduled maturities of investments and will supervise the Corporation's investment managers.

Operational Improvements

PBGC is making various operational improvements, some of which I have already noted. In July PBGC was removed from the OMB Management Watch List because of the agency's sustained efforts to improve IT project management and to resolve outstanding IT security deficiencies. We also embarked on a program to make constant improvement our goal and part of PBGC's corporate culture. The program is being met with enthusiasm by PBGC's employees. I should note that PBGC always earns high marks in its customer service surveys. PBGC also is rated as one of the top 10 small federal agencies to work for, which also reflects the shared customer focus of its employees and management. We filled management vacancies and are working on succession planning and the new performance management system. PBGC received its 15th consecutive unqualified audit opinion for FY 2007 and is currently working on achieving its 16th for FY 2008.

Conclusion

Companies that sponsor pension plans have a responsibility to live up to the promises they have made to their workers and retirees. But when a company can not keep its promises, workers and retirees need a strong insurance program as a safety net. We are building on the 2006 reforms and making internal improvements to strengthen the safety net.

Thank you, Mr. Chairman. I would be happy to answer questions.